


Mercator

Presentation to investors

Ljubljana, September 2015




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Agenda

General overview

- Key markets and programs
- Consumer trends

Integration process

- Identification of synergies across different areas of business
- Delivering added value through synergies

Business strategy within Agrokor Group

- Different focus in Slovenia and Serbia
- Disposals

Mercator Group Financials

- 1-6 2015
- Deleveraging

Monetization

- Key terms of proposed S&LB

Turnaround of Mercator

Financial restructuring created stability

Acquisition by Agrokor created synergies

People delivered results

Key figures for the Mercator Group

	1-6 2014		1-6 2015
Net sales	EUR 1,300 mn	-1.0%	EUR 1,287 mn
EBITDA	EUR 46 mn	54.2%	EUR 71 mn
EBITDA margin	3.56%	55.7%	5.54%
Result for the period	EUR -14 mn	To positive	EUR 15 mn
Net debt	EUR 986 mn	-12.5%	EUR 863 mn
Net debt/EBITDA	9.55	-28.0%	6.88

General overview

No. 1 position in every country where Mercator/Konzum is present

Slovenia	
Company	Market share % Q2 2015
Mercator consolidated	**32%**
SPAR / Interspar	23%
TUS Trgovine	12%
Hard discount	20%

Serbia	
Company	Market share % Q2 2015
Mercator consolidated	**15%**
Delhaize	11%
Maxi	9%
Univerexport	3%
TEMPO	3%
DIS	3%

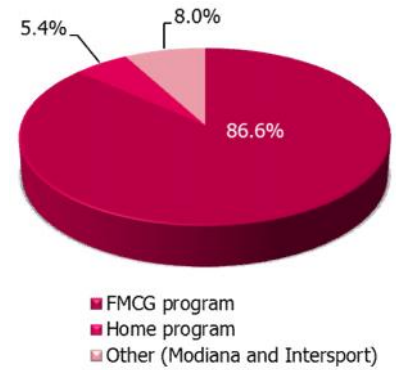
Montenegro	
Company	Market share % 2014
Mercator consolidated	**24%**
Lagardère Services	1%

Croatia	
Company	Market share % Q2 2015
Agrokor consolidated	**29%**
Schwarz Group	19%
Plodine	9%
Rewe Group	5%

Bosnia & Herzegovina	
Company	Market share % 2014
Agrokor consolidated	**14%**
Agrokor	**11%**
ITM (Intermarché)	**3%**
Mercator	**3%**
TUS Trgovine	2%

New landscape of Mercator

Revenue by programs actual 1-6 2015



Revenue by country 1-6 2015

Source: Planet Retail, GfK, Valicon
Note: Includes food retail formats market shares and total banner sales for grocery retailers.
Based on estimated banner sales owned or operated by the group including VAT, franchised operations and partly owned stores / chains except for Agrokor and Mercator, where 2014 reported figures are used converted at a 7.5 EUR/HRK FX rate

Mercator's operations in Slovenia, Serbia and Montenegro:

EUR 1.3 billion revenue, 1,208 business units, 1,021,696 square meters of gross sales area*

Mercator is the largest retailer in Slovenia, Serbia and Montenegro. **Slovenia represents 57.2% and Serbia 35.3 % of total Company sales in 1-6 2015.**

SLOVENIA
57.2% revenue in 1-6 2015
644 business unit
522,794 m^2 of gross area
10,978 employees

CROATIA
- Non core business
60 business unit
34,933 m^2 of gross area
774 employees

BOSNIA AND HERZEGOVINA
- Non core business
25 business unit
9,660 m^2 of gross area
200 employees

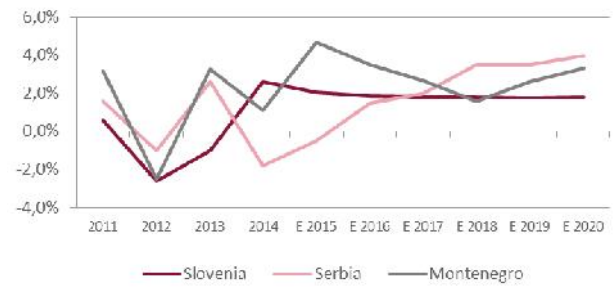
SERBIA
35.3% revenue in 1-6 2015
376 business unit
406,632 m^2 of gross area
8,677 employees

MONTENEGRO
3.8% revenue in 1-6 2015
103 business unit
47,677 m^2 of gross area
1,458 employees

* Included Mercator retail business. Not included third parties leases, offices, warehouses etc.

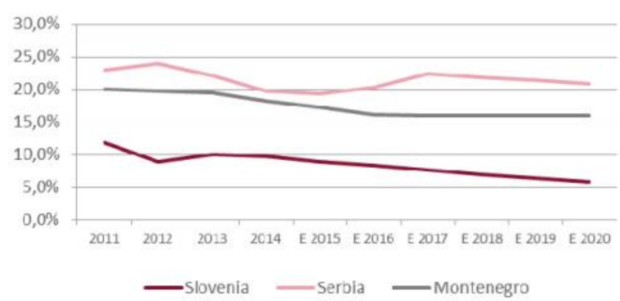
Macroeconomic indicators in the region are improving

GDP movement

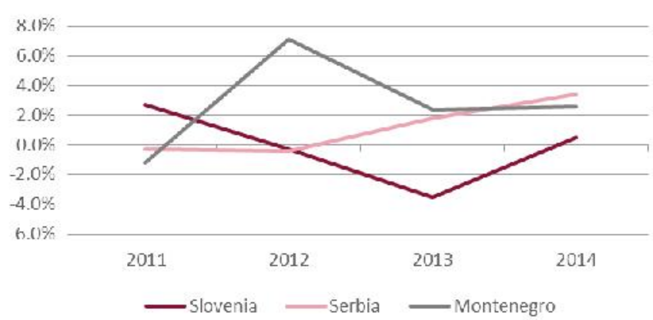


Inflation rate

Unemployment rate



Private consumption



Macro indicators

Gradual improvement:

Slovenia: Estimated improvement of the GDP growth up to 1.8 % in 2020. Estimated inflation rate is at 1.7 % for 2020. Based on domestic estimation, **GDP growth for 2015 is expected to be 2.7%.**

Serbia: Estimated improvement of the GDP growth up to 4.0 % in 2020. Estimated inflation rate is at 4.0 % for 2020.

Montenegro: Estimated improvement of the GDP growth up to 3.3 % in 2020. Estimated inflation rate is at 1.5 % for 2020.

Risks

Political instability can have a negative impact on business and consumer confidence.

Lack and timing of implementation of structural reforms.

Unemply.

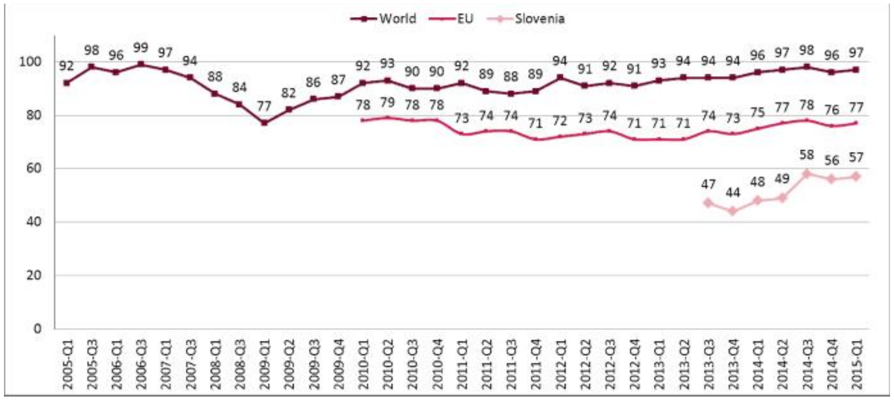
Unemployment rate remains high, but declining rapidly in Slovenia. Consumers in all markets still feel the effects of the recession. The future is viewed with slight optimism and somewhat more positive expectations.

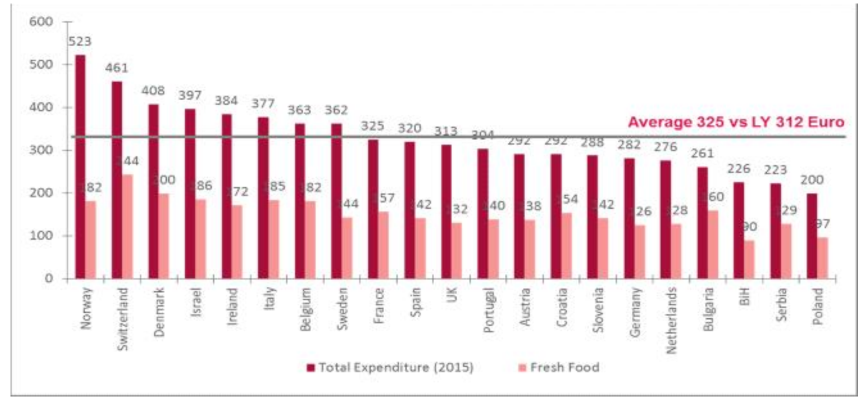
Consumer‘s careful optimism

Movements in short-term indicators suggest a continuation of the EU area of positive growth in household consumption.

Customer's changed behaviour will improve consumption

Customer confidence index	Household spending on FMCG and fresh food





Research shows a notable improvement in consumer confidence in the last period, however, the index is still below European average.

50% of consumption is intended to FMCG shopping basket. Consumption is relatively high.

Changes in the shopping behaviour seen since the onset of the crisis, have persisted:

- consumers shop more rationally,
- plan their shopping,
- prefer more inexpensive products,
- more responsive to special offers and promotions,
- buy more private label products,
- dispersed shopping over several retailers,
- several smaller shopping trips instead of one major shopping session,
- visit the discount retailers more often,
- do not deviate from the quality and origin.

Integration process

Synergies have been thoroughly analyzed by Agrokor, Mercator, and third-party consultants

Anticipated synergies are achievable

- Detailed analysis is based on the **specifics of respective countries** (market share, growth rate, supplier sophistication).
- **Effect of harmonization** has been calculated based on the differences between supply terms for the same products.
- **Volume discounts** have been calculated by combining the purchase/procurement volumes in all countries.
- **Efficiency improvement potential** (storage, marketing, logistics, purchasing) has been diligently analyzed.

Anticipated one-off (non-recurring) costs of integration

- **Negative synergies**, such as decrease of Mercator downstream prices in Croatia due to harmonization with Konzum prices
- **Re-branding costs**
- **Opex due** to integration of IT and customer loyalty programs

Implementation risks were known and appropriately managed

- **Risk of stock outs** in the first three months due to the adjustment of ordering cycle and deliveries
- **Fluctuation** in the transition period was accounted for and effectively managed.

The strategic alliance with Agrokor creates synergies at Group level

Purchasing
- Co-ordination of contracts and conditions
- Enable regional growth

Store
- Stock taking
- In store processes standardization

Logistics
- Storage infrastructure
- Supply network and Stock management
- Transport optimisation

Legal
- Revised corporate culture and corporate governance
- Reconciliation of lease contracts

Marketing
- Customer loyalty system integration
- Advertising integration

HR
- Work organisation
- HR policies
- Payments coordination

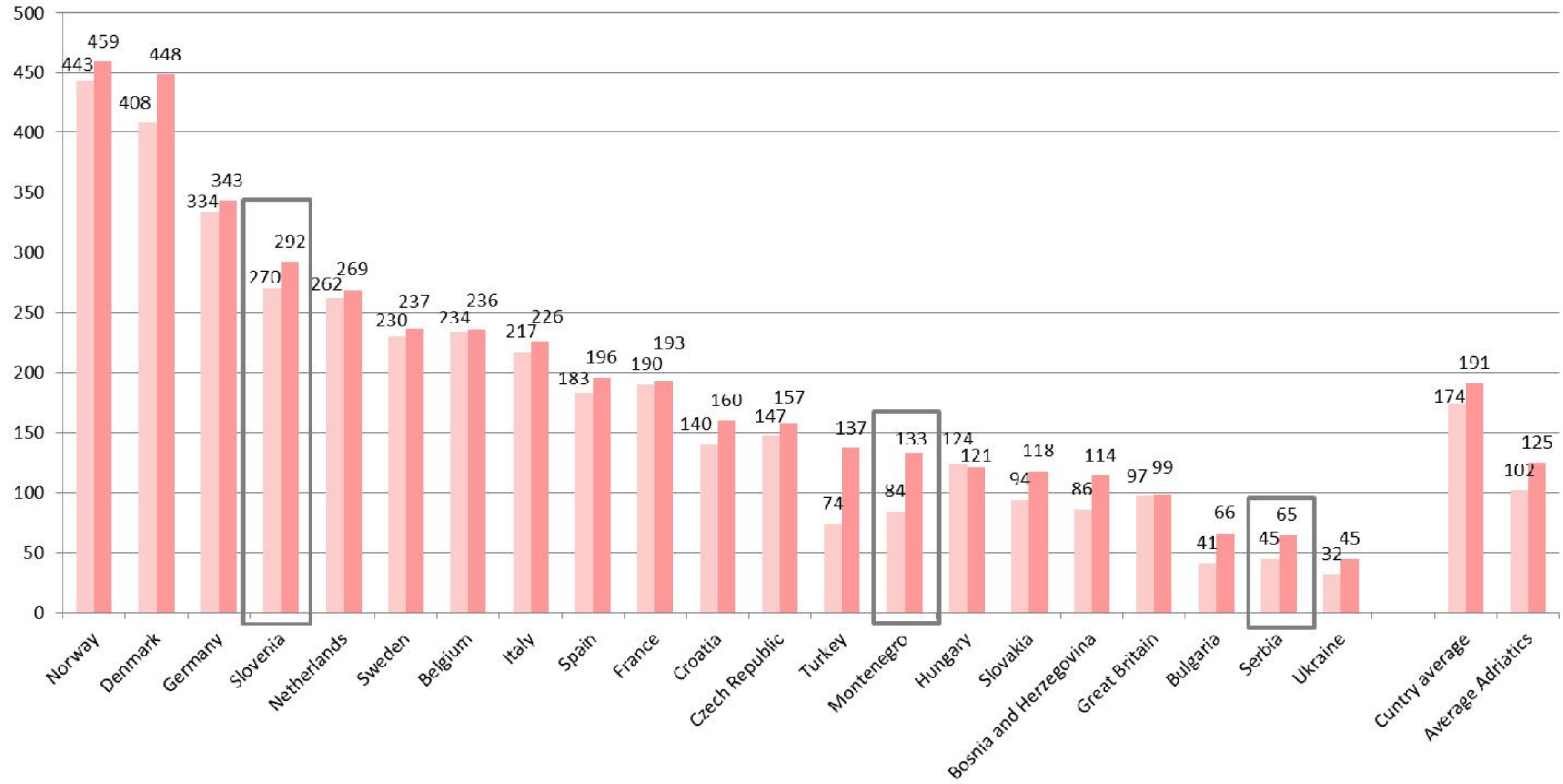
IT
- IT infrastructure integration
- Deploying stores and warehouse systems
- Re-contracting IT suppliers contracts

Other
- Re-contracting per services and equipment
- Investment
- Fixed assets handling

Business strategy within Agrokor Group

Modern trade network density is significantly different in our core markets

Number of Stores >400 m2 per 1mn inhabitants (2010 VS 2014)



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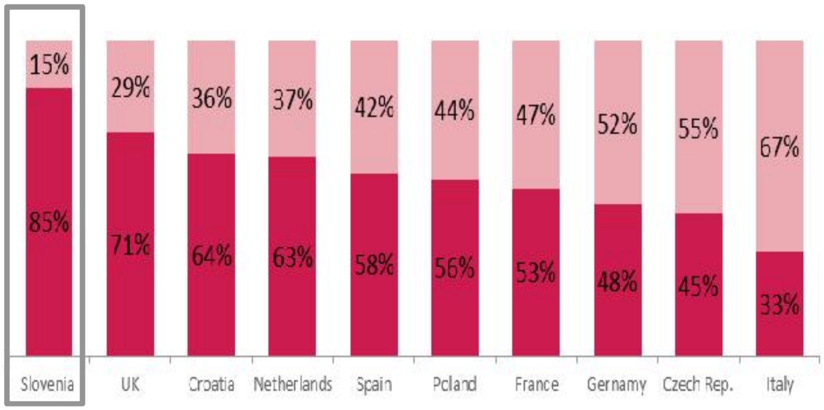
Slovenia: key targets are market share and profitability

The Slovenian food retail market shows one of the **highest concentration levels in Europe**

Top 5 MGD players market share %



- **The high growth of openings, together with a difficult macro economic situation, has brought a substantial pressure on LFL sales of food retailers.**
- **The rapid entrance of discounters has brought structural changes to the market and the consumer profile.**

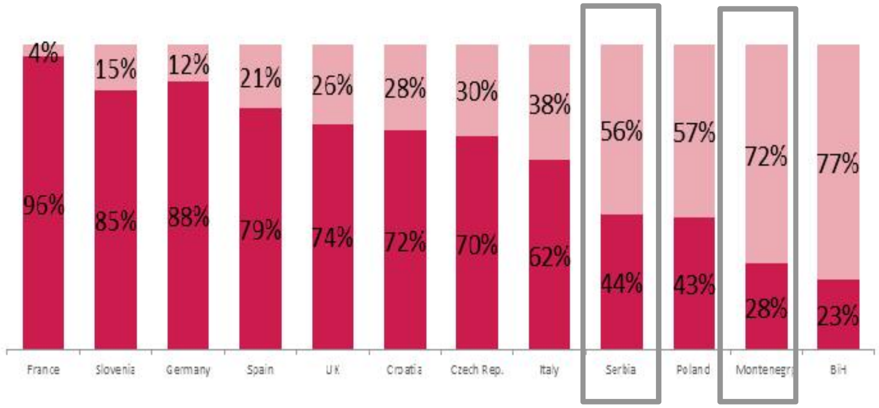
Strategic actions

Formats	**Focus on small proximity formats, enhance fresh sections, extensive renovation of the network**	Market share protection vs. discounters
Mass-market	**Improving price positioning and image and rationalising the assortment**	Market share protection
Cost-killing	**Focus on cost reduction and productivity improvements**	Lower costs -> EBITDA improvement
Private Label	**Continue to renovate and enhance PL range**	Price competitiveness, protection vs. discounters
Logistics	**New logistic centre to substitute the current 8 DC's operating in the Country**	Lower costs, supply north of Croatia

Serbia and Montenegro: Tackle growth opportunities

Level of densification and penetration of modern retailers in these three countries is low.

Organized and non-organized market - %



- We estimate a **full grocery market potential** in these two countries. If MGD may reach a penetration of 50-60% by 2016, **growth opportunities are massive. Entrance of Hard discounters postponed.**

Superb position as a market leader to capture biggest part of this growth

- Solid positioning: **strong and growing market share.**
- **Both countries are currently profitable** (although with room to improve).
- **Good portfolio of formats to operate in the upscale/value market** (Mercator) and in **the economy segment** (with the reputed and well-tuned Roda banner).

Massive opportunity to build-up a sizeable and profitable business in the region

New store format concept

MERCATOR SOSED

- The highlights and focus are the **offer of excellent fresh produce, private label products, quick and easy shopping** and **innovative ideas of the offered mix.**
- Introduction of »grab&go« module
- Introduction of self-checkout cashiers for increasing speed of shopping and improving the perception of innovation
- Investment in the renovation already shows positive results on business performance

Mercator Hypermarket Domžale and Supermarket Fužine

- **New format**
- The highlights and focus are the **offer fresh produce.**
- **Minute section** in the entrance
- New visual communication

Openings and refurbishments in the period 1-6 2015

SLOVENIA	
Area of new facilities:	14,515 m^2 *
Number of new retail units:	4*
Refurbishments	23

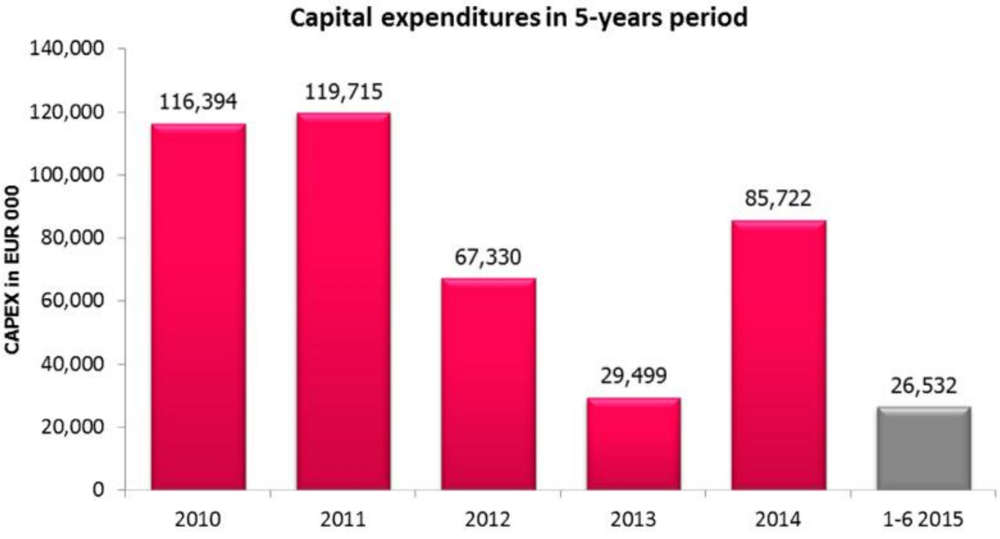
* Of the total new area the leased storage capacity of LDC Sežana includes 7,474 m^2.

SERBIA	
Area of new facilities:	4,604 m^2
Number of new retail units:	5
Refurbishments	28

MONTENEGRO	
Area of new facilities:	9,924 m^2
Number of new retail units:	15
Refurbishments	2

BOSNIA AND HERZEGOVINA	
Area of new facilities:	1,014 m^2
Number of new retail units:	2

CROATIA	
Area of new facilities:	313 m^2
Number of new retail units:	1



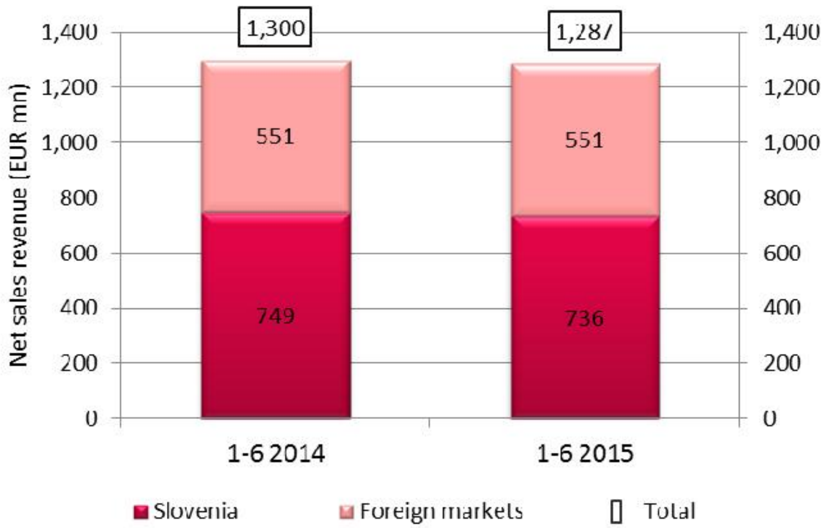
Mercator Group Financials

Mercator Group consolidated income statement

EUR thousand	1-6 2015	1-6 2014	Change
Revenue	1,287,237	1,299,927	-1.0%
Cost of goods sold and selling costs	-1,224,491	-1,264,658	3.2%
Administrative expenses	-40,042	-36,376	-10.1%
Other income	10,701	11,895	-10.0%
Results from operating activities	**33,405**	**10,788**	**209.6%**
Finance income	2,611	2,434	7.3%
Finance expenses	-16,662	-26,929	38.1%
Net finance expenses	**-14,051**	**-24,495**	**42.6%**
Profit (loss) before tax	**19,354**	**-13,707**	**-**
Tax expense	-4,043	-	-
Profit (loss) for the period	**15,311**	**-13,707**	**-**
Profit (loss) for the period attributable to:			
Owners of the parent company	15,344	-13,696	-
Non-controlling interests	-33	-11	-200.0%

Core business is stable, non-core businesses are improving

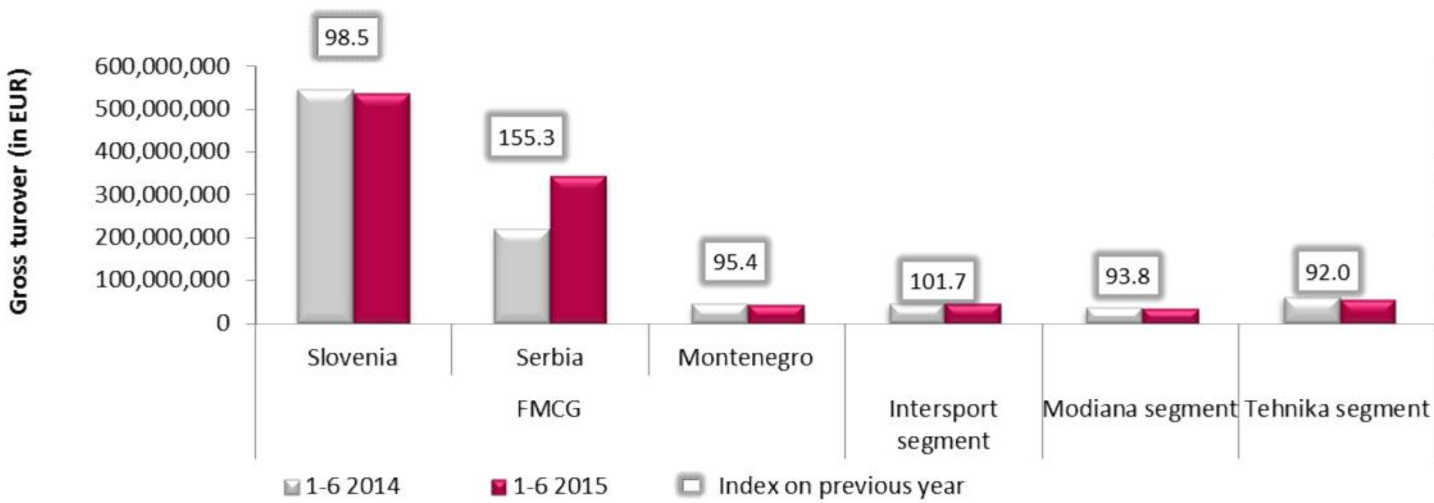
Restructuring and integration effects in 2014 and 2015



In Q2 2015 revenue dropped by 1 % relative to Q2 2014 which is mainly a result of consolidation by markets in relation with Mercator's takeover and a result of closing down the underperforming units in the non-core segments.

Improved business performance in Q2 2015 is a result of:

- continuous cost optimization
- positive synergy effects arising from the consolidation of trade activities in the region
- closure of underperforming units especially in the non-core segments



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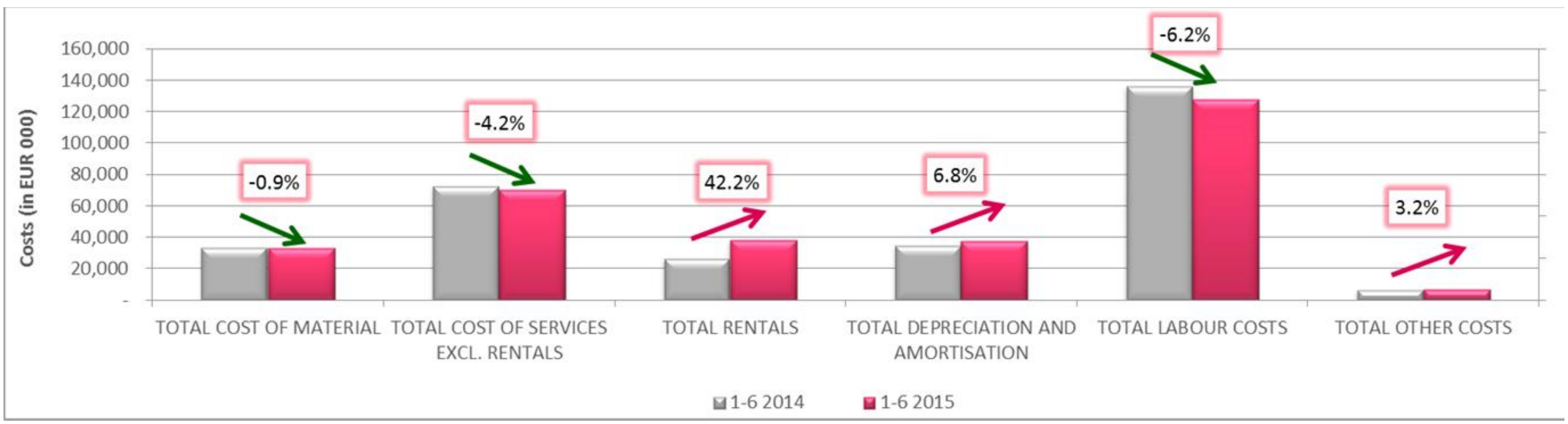
Cost optimisation continues to outperform our plans

The cost optimization project beyond planned framework

- In 2012 several measures were implemented to improve cost efficiency. By the end of the year, these measures brought savings of EUR 10 million.
- Further cost rationalisation in 2013 led to savings of almost EUR 35 million (amortisation and depreciation excluded).
- In 2014 operational costs were reduced by EUR 23.0 million (amortisation and depreciation excluded).

COST OPTIMIZATION



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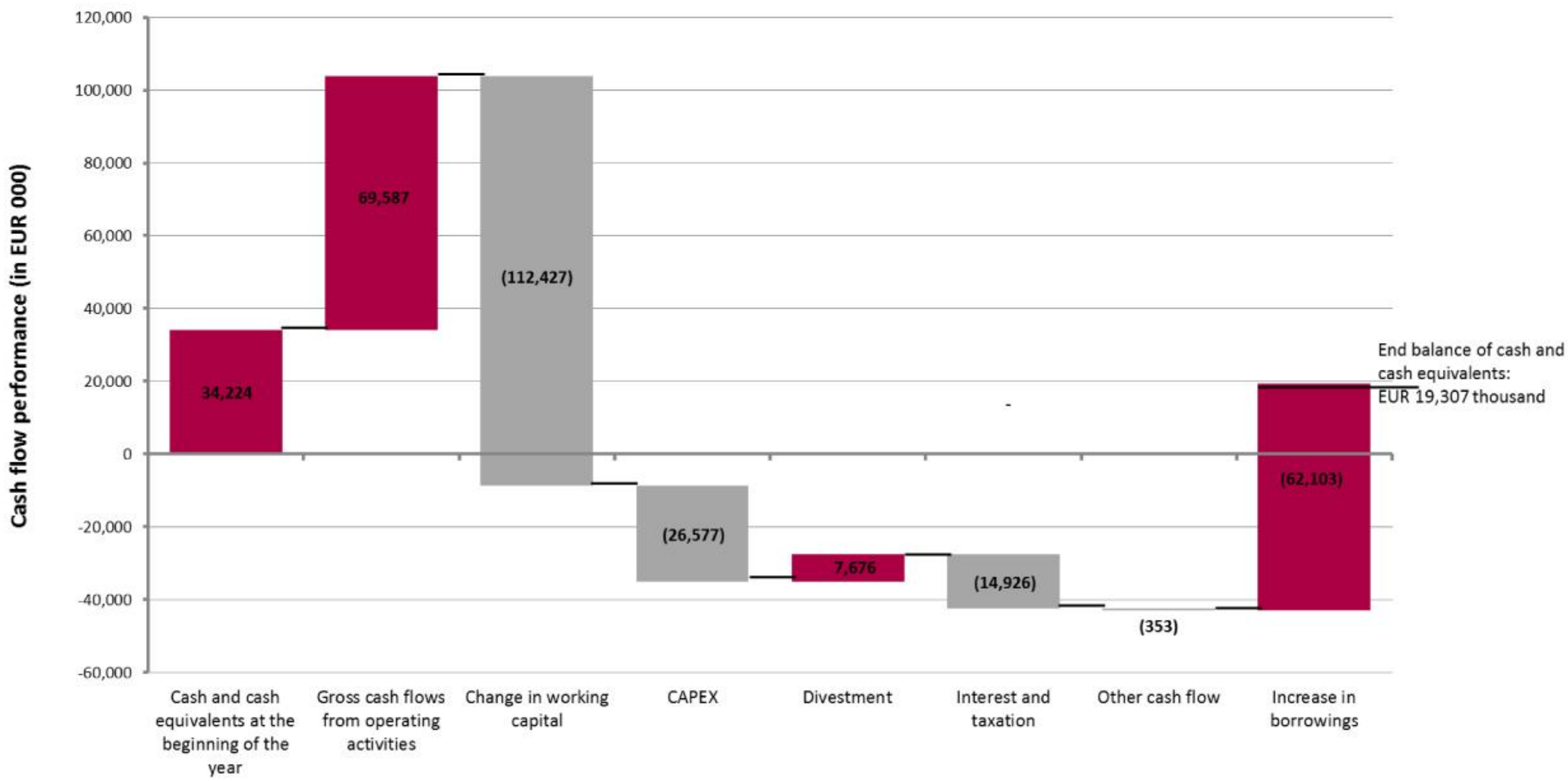
Cash Flow Performance in 1-6 2015



Mercator Group balance sheet as at June 30, 2015

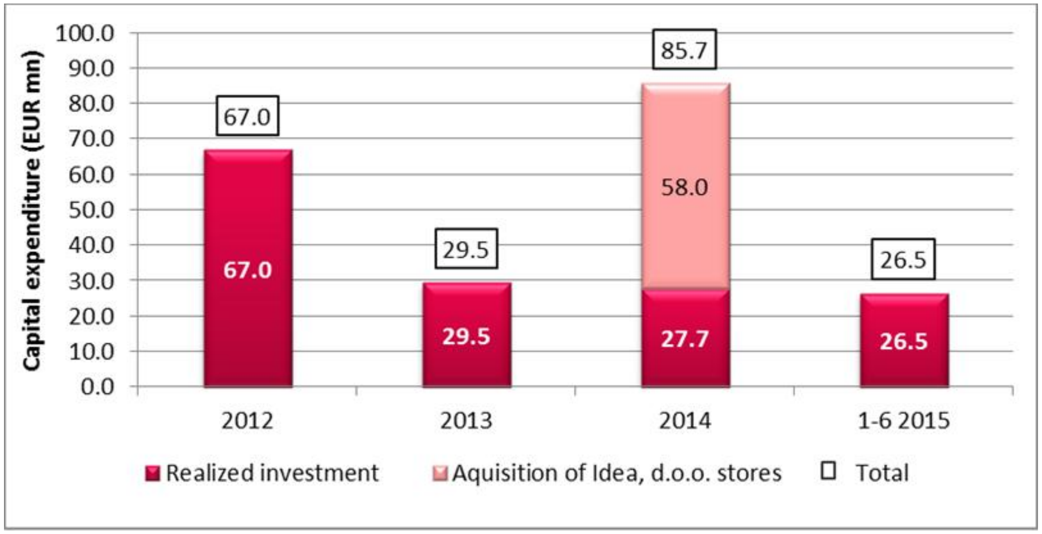
in 000 EUR	30.6.2015	31.12.2014	Index 30.6.2015 31.12.2014
ASSETS			
Non-current assets			
Property, plant and equipment and intangible assets	1,624,471	1,639,097	99.1
Loans and deposit, other receivables	46,267	48,494	95.4
	1,670,738	**1,687,592**	**99.0**
Current assets			
Inventory	248,476	257,323	96.6
Trade and other receivables	285,912	254,988	112.1
Cash and cash equivalents, loans and deposit, derivative financial instruments	22,316	37,470	59.6
	556,704	**549,781**	**101.3**
Total assets	**2,227,442**	**2,237,373**	**99.6**
EQUITY	**637,791**	**621,677**	**102.6**
LIABILITIES			
Non-current liabilities			
Trade and other payables, deferred tax liabilities	64,054	37,158	172.4
Financial liabilities	838,116	806,640	103.9
provisions	20,154	20,706	97.3
	922,324	**864,503**	**106.7**
Current liabilities			
Trade and other payables, current tax liabilities	593,702	708,195	83.8
Financial liabilities	73,625	42,998	171.2
	667,327	**751,193**	**88.8**
Total liabilities	**1,589,651**	**1,615,696**	**98.4**
Total equity and liabilities	**2,227,442**	**2,237,373**	**99.6**

Real estate operations in progress consistently with the adopted strategy and market conditions

In the period 1–6, 2015, the value of **total investment** was **EUR 26.5 million**. **Divestments** amounted to **EUR 6.5 million.**

Development strategy

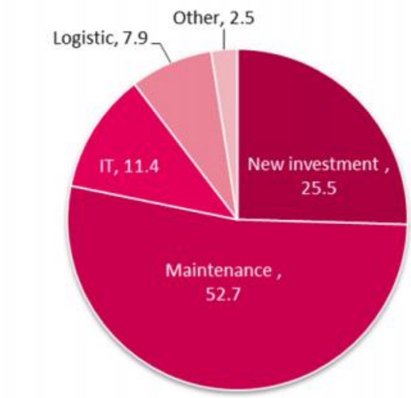
- Leasing real property is preferred to acquisition or construction of our own.
- Continued activity of updating Mercator shopping centres primarily in terms of the program mix.
- In 2016 approach to implementation of a new logistics distribution center.
- Sale and leaseback of existing properties in amount up to EUR 300 mn.



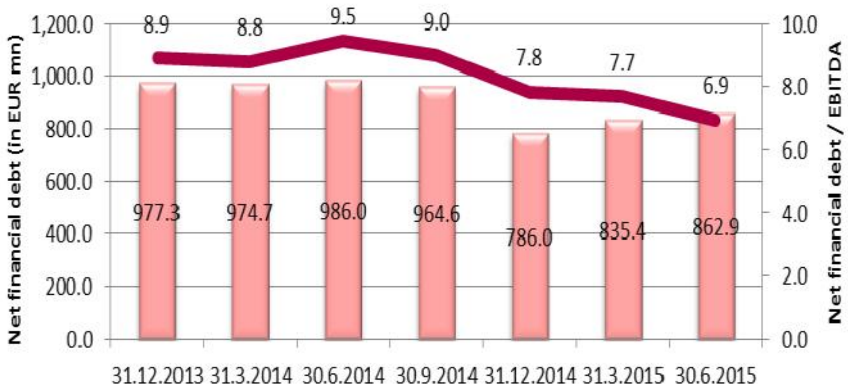
* 58 million of 2014 CAPEX pertains to the acquisition of 191 stores from Agrokor's subsidiary Idea, d.o.o., in Serbia.

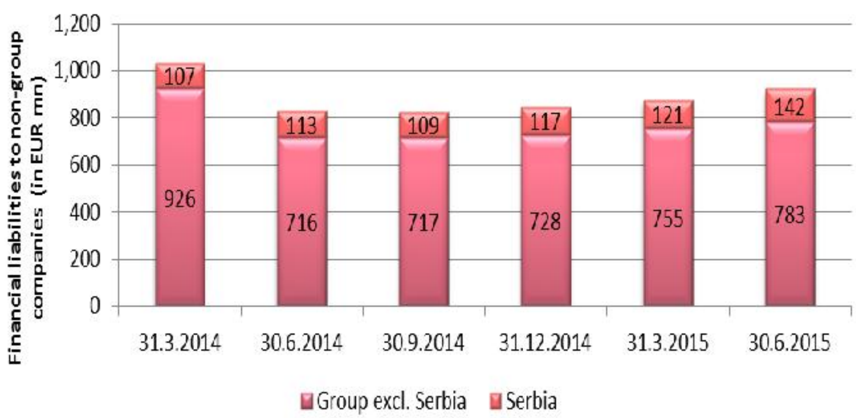
Amount of invesment by markets 1-6 2015 (EUR mn)

Share of investment by type 1-6 2015 (in %)



Mercator's leverage decreased further as at end of June





NET DEBT and FINANCIAL LIABILITIES

- Decrease of net debt in 2014 due to completed financial restructuring and capital increase by Agrokor
- Increase in the net debt as at June 30, 2015 is mostly related to drawing on available credit lines as a result of higher needs for working capital in the period 1-6 2015.

Disposals of non-core businesses

- Disposal of bakery – closing planned by end of Sept.
- Disposal of coffe business (brands Santana and Loka kava)

Stand-alone restructuring has improved the maturity structure, which has been upgraded with the recapitalization by the Agrokor

Pre-restructuring	Standalone restructuring	Post M&A (pro forma)
Equity= € 504m	Equity= € 501m	Equity= € 701m
Long term financial liabilities = € 328m	Long term financial liabilities = € 992m	Long term financial liabilities = € 792m
Short term financial liabilities= € 705m	Short term financial liabilities = € 55m	Short term financial liabilities = € 55m

Monetization

Key terms of proposed S&LB

Preliminary market sounding

Selection of the assets suitable for real estate monetisation

Appointment of relevant advisors

Predisposal assessment (valuation) of the selected real estate

Defining key lease terms and conditions

Key lease terms and conditions:

- Master lease agreement (right to sub-lease)
- Tenor: 20 years
- Triple net – Mercator covers all expenses related to the real estate (as if still owned freehold)
- EU HCPI indexation
- Built-in flexibility to enable developments and extensions
- Lease extension after lease will expire

Mercator included in the portfolio retail units which meet the following criteria:

- Rents are sustainable in the long run
- Mercator intends to occupy selected units in a long run

Thank you!